



Disclosure Report as on 31 December 2011 based on the annual financial report

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X-Trade Brokers Dom Maklerski S. A.

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INTRODUCTION

This Report is a consequence of provisions of the Regulation of Minister of Finance on 26 November 2009 in the matter of disclosing information concerning capital adequacy (Journal of Law, 2009, No. 210, item 1615, with later amendments Journal of Law 2011, No. 156, item 929 and Journal of Law, 2011, No. 263, item 1570). Detailed scope and terms of announcing the above-mentioned information is defined in the "Information Policy at X-Trade Brokers Dom Maklerski S.A.", which has been published on the www.xtb.pl website.

The Report contains the information as on 31 December 2011, including:

- I. Business entity description
- II. Supervised capitals
- III. Capital requirements
- IV. Capital adequacy ratio
- V. Internal capital and risk management.
- VI. Information on the variable pay components policy

X-Trade Brokers DM S.A. (hereinafter "X-Trade Brokers", the "Company") is the subject to principles of calculation of the total capital requirement set forth in the Regulation of Minister of Finance on 18 November 2009 concerning scope and detailed principles of determining total capital requirement, including capital requirements for brokerage houses and defining maximal amount of credits, loans and issued debt security related to the capitals (Journal of Law, 2009, No. 204, item 1571), with later amendment on 5 August 2010 (Journal of Law 2010, No. 163, item 1100) and on 13 July 2011 (Journal of Law, 2011, No. 156, item 927), hereinafter the Regulation on Capital Requirements.

X-Trade Brokers publishes the information based on the individual data, because as on 31 December 2011 the X-Trade Brokers Company was not obliged to fulfil the norms of capital adequacy in the consolidated form.

Based on the requirements of other laws, the data concerning the financial information have been published in the Financial Report of X-Trade Brokers for 2011 in the Official Gazette of the Republic of Poland and the www.xtb.pl website, where the following information has been published:

- 1) Annual financial report
- 2) Introduction to the financial report constituting part of the supplementary information
- 3) Balance
- 4) Profit and loss statement
- 5) Statement of changes in equity
- 6) Cash flow statement for the financial year
- 7) Opinion of the chartered auditor.

I. Business entity description

X-Trade Brokers Dom Maklerski Spółka Akcyjna with the registered office in Warsaw, at 58 Ogrodowa St, 00-

876, Warsaw has been entered into the Register of Entrepreneurs of the National Court Register (KRS) under No. 0000217580.

Individual financial report covers all the foreign branches:

1. X-Trade Brokers Dom Maklerski S.A., organizační složka – branch in the Czech Republic
2. X-Trade Brokers Dom Maklerski S.A., Sucursal en Espana – branch in Spain
3. X-Trade Brokers Dom Maklerski S.A., organizačná zložka – branch in Slovakia
4. X-Trade Brokers Dom Maklerski S.A. Sucursala Bucuresti Romania – branch in Romania
5. X-Trade Brokers Dom Maklerski S.A., German Branch – branch in Germany
6. X-Trade Brokers Dom Maklerski S.A., Magyarorszagi Fiolkelepe – branch in Hungary
7. X-Trade Brokers Dom Maklerski S.A. – branch in France
8. X-Trade Brokers Dom Maklerski S.A., Sucursal Portuguesa – branch in Portugal
9. X-Trade Brokers Dom Maklerski S.A., Succursale in Italia – branch in Italy

The consolidated financial report covered all the subsidiaries:

1. XTB UK Ltd, with registered office in the United Kingdom
2. X-Trade Brokers Asesores Bursatiles S.A., with registered office in Mexico.

The subsidiaries do not decrease the supervised capitals.

II. Supervised capitals

The current capital structure of X-Trade Brokers consists in 100% of equity generated within the business and contributed by the Shareholders.

As on 31 December 2011 X-Trade Brokers had large scale of business activity, thus level of the supervised capitals was the sum of called up share capitals, 2nd category supplementary capitals and 3rd category supplementary capitals.

X-Trade Brokers takes into account 2nd category supplementary capitals in the supervised capitals in the amount not exceeding the total called up share capital decreased by the items specified in Art. 2, section 2 of the appendix No. 12 to the Regulations on Capital Requirements.

X-Trade Brokers takes into account 3rd category supplementary capitals in the regulatory capitals in the amount not exceeding the capital requirements related to:

- market risk
- settlement risk, delivery risk and counterparty credit risk
- exceeding the exposure limit and large exposure limit related to the trading portfolio.

The overall sum of supervised capitals as on 31 December 2011, defined in accordance with the Appendix 12 to the Regulation on Capital Requirements, came to PLN 249 102 519.

All the constituents are shown in the following table.

Table 1 Supervised capitals

Item	SUPERVISED CAPITALS	Amount in PLN
1.	Called up capitals	211 390 156
1.1.	Core capital	215 440 985
1.1.1.	Share capital	5 520 625
1.1.2.	Supplementary capital	1 850 000
1.1.3.	Other reserve capitals	208 070 360
1.2.	Additional items in core capital	0
1.2.1.	Net profit in current reporting period	0
1.3.	Items decreasing core capital	4 050 829
1.3.1.	Other intangible assets	4 050 829
2.	2nd category supplementary capitals, including:	-2006 594.05
2.1.	Revaluation reserve	-2 006 594.05
3.	3rd category supplementary capitals, including:	39 718 957
3.1.	Profit on the market	248 560 955
3.2.	3rd category capital taken into account in the supervised capitals	39 718 957
1. +2. +3.	Total	249 102 519

III. Capital requirements

X-Trade Brokers calculates total capital requirement (regulatory capital) in accordance with the Regulation on Capital Requirements.

In accordance with Art. 3, section 1 of the Regulation on Capital Requirements, X-Trade Brokers calculates and monitors the regulatory capital related to:

- 1) Market risk, including:
 - a) Total requirement due to an item risk calculated as defined in the Appendix No. 3 to the Regulation on Capital Requirements, including the total capital requirement related to:
 - i. (equity instruments prices risk);

- ii. (commodities prices risk);
 - iii. (debt instruments prices risk);
 - iv. general risk connected with the interest rates related to the trading portfolio;
 - v. participation entitlements in collective investment schemes prices risk
- b) Total capital requirement due to the currency risk – calculated as defined in the Appendix No. 4 to the Regulation on Capital Requirements
- 2) Settlement risk – calculated as defined in the Appendix No. 5 to the Regulation on Capital Requirements
 - 3) Counterparty credit risk – calculated as defined in the Appendix No. 5 to the Regulation on Capital Requirements
 - 4) Credit risk – calculated as defined in the Appendix No. 6 to No. 9 to the Regulation on Capital Requirements
 - 5) Operational risk – calculated as defined in the Appendix No. 11 to the Regulation on Capital Requirements
 - 6) Excess of the exposure limit and large exposure limit – calculated as defined in the Appendix No. 10 to the Regulation on Capital Requirements.

X-Trade Brokers calculates the capital for covering the 1st Pillar risks applying the following methods:

- risk on the market:
 - Equity instruments prices specific risk– basic method
 - Equity instruments prices general risk – basic method
 - Commodities prices risk – maturity date method
 - General interest rate risk – maturity date method
 - currency risk – basic method
- credit risk – standard method
- Counterparty credit risk – standard method of determining risk-weighted exposures, method of comprehensive covering of financial securities applying supervisory volatility adjustments
- operational risk – basic rate method.

Capital requirement connected with each type of risk

Total capital requirement as on 31 December 2011 was PLN 75 368 437.

Table 2 Structure of the total capital requirement

Item	Risk type	Capital requirement in PLN	% of the total Regulatory Capital
I.	Total capital requirement	75 368 437	100.00%
1.	Risk on the market	39 441 199	52.33%
1.1.	Equity instruments prices risk	568 779	0.75%
1.1.1.	Equity instruments prices general risk	423 000	0.56%
1.1.2.	Equity instruments prices specific risk	145 779	0.19%
1.2.	Commodities prices risk	3 257 524	4.32%
1.3.	General interest rate risk	658 217	0.87%
1.4.	Currency risk	34 956 679	46.38%
2.	Credit risk	14 882 001	19.75%
3.	Counterparty credit risk	206 482	0.27%
4.	Settlement risk	71 276	0.09%
5.	Excess of the exposure limit and large exposure limit	0	0
6.	Operational risk	20 767 480	27.55%

Credit risk

In order to calculate the capital requirement the X-Trade Brokers Company distinguishes exposure classes according to the Art. 20, section 1 of the Appendix No. 6 to the Regulation on Capital Requirements.

As on 31 December 2011 X-Trade Brokers had the following exposures:

Table 3 List of receivables in PLN as on 31 December, 2011.

Item	Exposure class	Exposure value	8% of the risk-weighted exposure	Average exposure in 2011
1.	to entities from the public finance sector and to entities, which do not carry out business activity	3 828 476	61 256	1 291 268
2.	Short-term to institutions and entrepreneurs	430 402 114	10 432 191	545 039 313
3.	Retail	4 451 507	267 090	3 006 877
4.	Overdue	557 151	62 085	1 851
5.	Other exposures	50 772 426	4 059 378	25 304 692
	Total	490 011 674	14 882 001	574 664 002

All the exposures to the institutions have been classified as the short-term ones.

In order to determine weights of risks for short-term exposures to institutions and entrepreneurs X-Trade Brokers uses creditworthiness ratings provided by the following external creditworthiness rating institutions: Fitch Ratings, Moody's Investors Service and Standard and Poor's Ratings Services.

The following table shows the payment date structure for assets constituting the credit exposures.

Table 4 Exposure structure by maturity dates divided by exposure class as on 31 December 2011

Item	Exposure class	Maturity date			
		Up to 3 months	above months	3 With undefined maturity	Not applicable
1.	to entities from the public finance sector and to entities, which do not carry out business activity	3 828 476	0	0	0
2.	Short-term to institutions and entrepreneurs	430 402 114	0	0	0
3.	Retail	3 058 151	0	1 393 356	0
4.	Overdue	557 151	0	0	0
5.	Other exposures	1 660 108	27 467 544	5 144 746	16 500 028
	Total	456 006 028	27 467 544	6 538 102	16 500 028

The exposures are considered overdue, if 90 days have passed since the maturity date and the exposure is at least:

- 1) PLN 500 for retail customers
- 2) PLN 3 000 for other exposure classes

Exposure with identified permanent loss of value are receivables, for which write-offs have been made due to loss of value. Permanent loss of value arises, when there is a high probability that the asset constituent which is controlled by the entity will not bring the expected economic benefits in a significant part or in a whole in the future .

The policy in the scope of making write-offs and reserves related to loss of assets value to the counterparty credit risk was described in the introduction to the report, which is part of the additional information.

Table 5 Structure of overdue exposures divided by exposure class as on 31 December, 2011

Counterparty type	With identified permanent loss of value	Overdue exposures
Retail	308 339	557 151

X-Trade Brokers does not have any exposures related to securitisation of assets and does not use any advanced method of calculating the capital amount.

Counterparty credit risk

Table 6 Exposures secured by an approved financial security after implied volatility adjustment as on 31 December 2011.

Item	Exposure class	Exposure value adjusted by volatility factor
1.	Short-term to institutions and entrepreneurs	0
2.	Retail	41 194 281
1.+2.	Total	41 194 281

There is no risk of disadvantageous change to the security amount, because the security consists of financial means of Customers deposited on the account of X-Trade Brokers.

Interest rate risk related to the non-trading portfolio

In general, change in the market interest rates does not have a significant impact on the financial condition of the brokerage house. It is a minor change that an unsuitability of the interest rates to X-Trade Brokers, therefore the interest rate risk related to the non-trading portfolio has been recognised as insignificant.

IV. Capital adequacy

Trading in Financial Instruments Act imposes on the brokerage houses an obligation to keep supervised capital in the amount not lower than the higher of the following values:

- a) total capital requirement defined by the brokerage house under the relevant regulations (regulatory capital),
- b) amount assessed by the brokerage house pursuant to the relevant regulations, required to cover all the significant identified types of risks existing within the activity carried out by the brokerage house and other significant types of risk, which may arise within the course of this activity in the future, called the internal capital.

As on 31 December 2011 ratio of the supervised capital to total capital requirement was 3.31 (capital rate), whereas capital adequacy ratio was 26.44%. The capital adequacy ratio is calculated as quotient of the capital rate by 12.5 cofactor.

The amount of supervised capital calculated regardless of the scale of the business activity carried out was over 60 times higher than the minimum amount of equity for carrying out the brokerage activity. The requirements provided by the external regulations have been fulfilled.

V. Evaluation of the internal capital and information on the risk management policy

X-Trade Brokers DM S.A. is exposed to a range of risks connected with the operating activity. Aim of the risk management is to ensure that X-Trade Brokers accepts a risk in a conscious and controlled manner. The risk management policies are prepared in order to identify and measure the accepted risks, and to determine appropriate limits limiting the scale of exposure of X-Trade Brokers to those risks on the regular basis.

The management board is responsible for defining and monitoring the risk management policy at the strategic level. Each type of risk is monitored and controlled in relation to the nature of the business activity carried out and amount of the capital required to ensure safe operation in terms of capital requirements.

The Risk Control Department assists the Management Board in shaping, reviewing and updating the ICAAP principles, if new types of risk arise, major changes to the strategy and plans of action in the external environment, in which the Company operates, monitors adequacy and efficiency of the employed risk management system, identifies, monitors and controls the market risk for the own investments of the Company, determines total capital requirement and assesses internal capital.

Within the internal procedures, among others, the limits minimising the market risk connected with keeping open position on the financial instruments. The Risk Control Department checks the use of limits and relevance of possible securing transactions on the regular basis.

The credit risks applicable to financial means is minimised by selecting banks with high credit rating provided by international rating services and by diversification of banks, where the accounts are opened.

In accordance with the ICAAP (Internal Capital Adequacy Assessment Process and assessment of capital adequacy) X-Trade Brokers calculates its internal capital in order to determine total capital requirement for covering all significant types of risk and in order to perform its quality assessment. The Internal Capital Adequacy Assessment Process takes into account the strategy of the brokerage house, the risk management policy and the capital plans of

the brokerage house. This process forms an integral part of the risk management system, it is on a current basis adapted to changes in the business activity carried out by X-Trade Brokers, including in particular the situations, when new types of risks, major changes in the strategy and plans of action appear.

Since 17 June 2010, that is, since the obligation of applying the ICAAP process by the brokerage houses has been imposed, each day X-Trade Brokers determines and monitors the amount of internal capital. The internal capital remains lower than the regulatory capital, thus it does not determine the amount of total capital requirement directly.

X-Trade Brokers calculated internal capital applying the method of capital charges on 1st Pillar capital requirements on each risk.

The ICAAP process at X-Trade Brokers consists of the following:

- identification of the relevant risks
- assessment and allocation of the internal capital
- aggregation of the capital for covering the risks
- tests under stress conditions
- monitoring of supervised capital as compared to the assessed capital requirement

The Internal Capital Adequacy Assessment Process (ICAAP) is a subject to regular annual reviews.

The Management Board of X-Trade Brokers is in charge of the entire internal capital management process, capital assessing and keeping process, including the processes connected with assessment of adequacy of this capital in various economic conditions and assessment of results of tests in stress conditions and their influence on amount of the internal capital.

The Supervisory Board of X-Trade Brokers performs supervision over the internal capital assessment process.

VI. Information on the variable pay components policy

X-Trade Brokers introduced the policy related to variable pay components for employees holding managing positions, including the pension benefits non defined upfront, executed by the brokerage house, hereinafter the "Policy".

Preparing, approving, implementing and updating the Policy

1. The Management Board of X-Trade Brokers is responsible for preparing, implementing and updating the Policy.
2. The Policy is a supplement to the risk management system relevant in the brokerage house, strategy adopted by X-Trade Brokers and system of preventing conflicts of interests.
3. The Supervisory Board of X-Trade Brokers, acting also as a Remuneration Committee approves the Policy and supervises its execution.
4. The Policy is also a subject to opinion of the Supervisory Board acting as Remuneration Committee.
5. Policy execution is the subject of a review at least once a year. A review is made by an employee performing a task in the scope of risk management in X-Trade Brokers.
6. Based on the review mentioned in the section 5, the person, who makes a review, prepares a written report

defining status of Policy execution. The report is submitted to the Remuneration Committee.

Members and duties of the Remuneration Committee

1. There is the Remuneration Committee in X-Trade Brokers, which duties are entrusted to the Supervisory Board. The Supervisory Board consists of 5 members appointed by the General Meeting of the Company Shareholders of X-Trade Brokers.
2. The Remuneration Committee at least twice a year:
 - a) gives its opinion on variable pay component policy, including the amount and the constituents of the remuneration;
 - b) gives its opinion on the variable pay component policy;
 - c) gives its opinion and monitors payment of variable pay components to employees holding management positions connected with risk management, internal control and analysing compliance of brokerage house operation with the regulations of law;
 - d) defines list of employees holding management positions at X-Trade Brokers;
 - e) in the beginning of each financial year it approves the planned amount and variable pay components of employees holding management positions for this financial year, taking into account the rules defined in the Policy.

Criteria and manner of shaping the variable pay components policy

1. When paying or granting the variable pay components, the Management Board takes into account size of X-Trade Brokers, risk connected with its business activity, internal organisation, scope and degree of complexity of the business activity carried out by the brokerage house.
2. The Management Board in the beginning of each financial year submits to the Supervisory Board the planned amount and variable pay components of employees holding management positions for this financial year, taking into account the rules defined in the Policy.
3. Each time after approving the budget for the subsequent financial year, the Supervisory Board approves the amount of bonuses to the management board and to key employees covered with the Variable Pay Components Policy for the subsequent year.
4. The amount and payout of the variable pay components paid to the members of the management board of the brokerage house depend on the percentage of the budget execution of X-Trade Brokers for the given period. The distribution of the variable pay components must be approved by the Supervisory Board on the request of President of the Management Board.
5. The assessment of results is based on the data for at least three recent financial years, and for people employed for a shorter period than three years – on the data from the moment of commencement of the employment relationship, so that the actual payment of pay components depending on the performance of the brokerage house that is distributed for the period taking into account the economic fluctuations and the risk connected with the business activity carried out by the brokerage house.

6. The basis for determining the total amount of the remuneration is the assessment of performance of each person and the data related to the organisational unit in relation to the general performance of the brokerage house – assessment of individual performance takes into account financial and non-financial criteria.
7. The Variable Pay Components paid to the employees performing duties related to the process of supervision over compliance with the relevant regulations of law as well as related to risk management that are defined by the President of the X-Trade Brokers Management Board and depend on fulfilment of tasks entrusted to them, based on the internal organisation regulations of the departments they lead.
8. The guaranteed Variable Pay Components, which are not a subject to the regulations of the decision, are of extraordinary nature, may be granted only at the moment of entering into employment relationship and are limited to the first year of employment.
9. If the remuneration is divided into constant and variable components – the constant ones should constitute as large part of the total remuneration as possible in order to carry out a flexible policy concerning variable pay components, including reducing the amount of these components not paying them at all.
10. Amount of the granted variable pay components cannot limit ability of X-Trade Brokers to increase its capital base.
11. Due to early termination of the Agreement the severance pay should reflect the amount of work, an efficiency and quality for the period at least three last years of holding the management position at the brokerage house, and for employees holding the management position for the period shorter than three years – for the period of accepting this position; the terms related to payments should be defined in such a way that they prevent rewarding poor performance, in the same time taking into account the grounds and the criteria defined in the section 4.
12. At least 50% of the variable pay components will be granted in shares in X-Trade Brokers or in financial instruments, which value is associated with the financial condition of the brokerage house.
13. At least 40% of the variable pay components will depend on the performance of a given employee and will take into account the risk of business activity of X-Trade Brokers.
14. Part of the variable pay component described in the section 13 will be settled and paid within the period of three to five years, whereas this period will be defined considering economic fluctuations, nature and risk of the activity carried out and duties of this employee. If the amount of the total remuneration to this employee in the previous financial year exceeded the equivalence of EUR 1 000 000 in PLN defined according to the average exchange rate announced by the National Bank of Poland (NBP) for the last day of the previous year, this applies to 60% variable pay components.
15. The variable pay components should be granted or paid, if they reflect the financial condition of the brokerage house and are justified by the performance of this brokerage house, the performance of the organisational unit, which an employee worked for and performance of this employee. Amount of the variable pay components may be reduced, and their payment suspended, if the brokerage house shows a permanent balance loss.
16. The employees being subject to the Policy are obliged not to use their personal hedging strategy and insurance related to the remuneration and liability for the purpose of undermining the effects of taking into

account the risk in the remuneration system they are subject to.

17. The financial result of the brokerage house assumed in order to determine variable pay components, should take into account the incurred risk, cost of capital and limitations of liquidity.